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WHY CALIFORNIA'S HOUSING MARKET IS ABOUT TO TUMBLE

WAL-MART'S FUTURE: MORE GROCERIES, SLOWER GROWTH

OCTOBER 30, 1989

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Forbes



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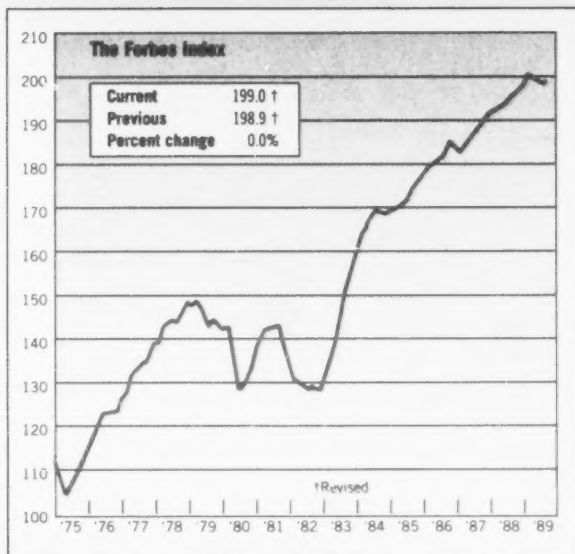
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The Forbes Index



Confusing signals. The Forbes Index for August is where it was last December. Sluggish growth in industrial production joined with weakness in the housing market to nullify improvement in other Index components such as personal income and new unemployment claims. Manufacturers' new orders jumped 4% in August, to \$127 billion, the best monthly total since April, while inventories hit an alltime high of \$247 billion. At the moment, the economy is full of such confusing signals. In real terms, growth in the gross national product has remained positive, but Allen Sinai, chief economist at Boston Co., expects the annualized growth rate to fall from 4.4% in 1988 to 3% in 1989.

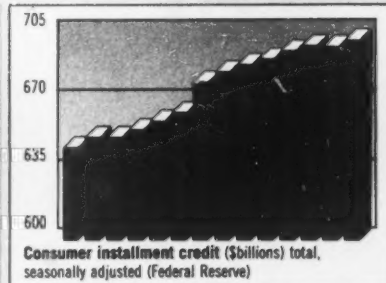
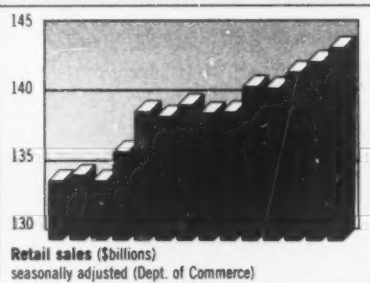
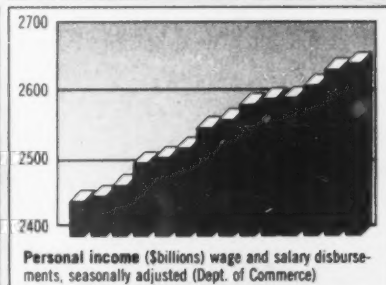
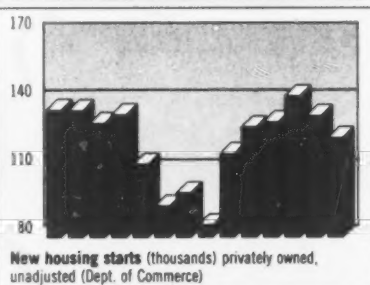
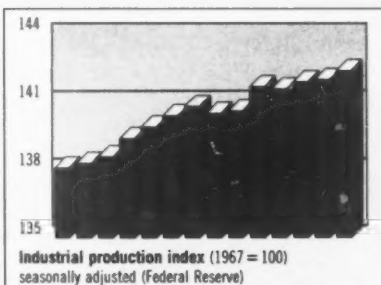
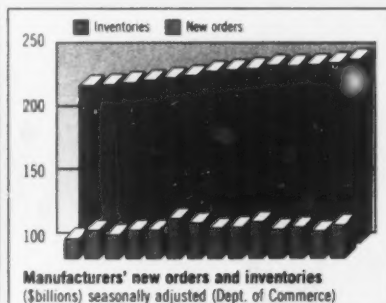
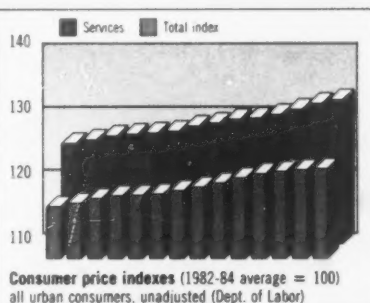
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	16.5%
Auto sales ¹ year to date vs. 1988	Ward's Automotive	-3.8%
Index of leading indicators August vs. July	Dept. of Commerce	0.3%
Trade balance last 12 months	Dept. of Commerce	-\$112 bil
Producer price index ² August vs. 1988	Dept. of Labor	4.2%
GNP 2nd quarter vs. 1st—annualized growth	Dept. of Commerce	2.5%

¹U.S. based manufacturers only as of 9/30/89. ²Finished goods.

Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



J A S O N D J F M A M J J A
1988 1989

J A S O N D J F M A M J J A
1988 1989

J A S O N D J F M A M J J A
1988 1989

Farmers are buying tractors again. With its big J.I. Case division finally catching fire, Tenneco is feeling the warmth.

Case study in determination

By Rick Reiff

UNTIL THIS YEAR, J.L. Ketelsen's affection for tractors was a frightful experience for Tenneco Inc., the \$14 billion (1988 sales) industrial products and energy conglomerate that he runs. Beginning with the purchase of International Harvester's battered farm equipment business in 1985, Ketelsen has poured more than \$1 billion into J.I. Case Co., Tenneco's tractormaking subsidiary, which is number two, behind Deere & Co., among American farm equipment makers.

What has Ketelsen's billion brought? From 1985 through last year, Case's accumulated operating losses came to \$613 million.

But Ketelsen is a determined man. A 13-year veteran of Racine, Wis.-

based Case before he moved to Tenneco's Houston headquarters in 1972, Ketelsen has actually increased Tenneco's reliance on the volatile and cyclical tractor business. Having sold Tenneco's oil company assets for \$7.4 billion last year to repurchase 14% of its stock and trim debt, Tenneco now has half of its \$9.5 billion of nonfinance company assets tied up in Case, which also sells construction machinery. Tenneco's natural gas pipelines, the last remnants of its once dominant energy operations, make up only a fourth of the assets. Chemicals, minerals, auto parts, shipbuilding and packaging make up the rest.

Finally, though, Ketelsen's determination to stay with Case is paying off. His stubbornness has gained for Tenneco an enviable and increasing share of what is suddenly a surging market

for the big-ticket (\$50,000 and up) row crop tractors and combines that are the hallmark of the combined Case-IH line. Through August, with a bumper corn harvest still ahead, U.S. farmers had purchased 12,000 two-wheel-drive, 100-and-over horsepower tractors—a 25% rise from a year ago.

The same leverage that nearly killed Case before is now working its upside wonders. Operating profit in the traditionally strong second quarter surged to a record \$116 million this year, a fivefold increase from 1988. On 22% higher sales of \$1.4 billion, Case's operating margin was 8%, just below the 9% margin enjoyed in the second quarter by its highly regarded archrival, Deere.

Nor does this appear to be a temporary flash on Case's bottom line. Many who track the farm machinery business believe farm equipment spending is at the beginning of an upswing that could last five to seven years. The average tractor in use is now 12 years old, and farmers have cash to replace them after three years of record profits fueled by higher commodity prices and generous federal subsidies. Their land, often pledged as collateral for tractor loans, is worth 20% more than it was three years ago. Good used equipment from foreclosure sales is scarce, and 18-month inventories on equipment dealer lots have been pared down to a six-month supply.

With Case finally back in the black, Tenneco's first-half income from continuing operations more than doubled, to \$289 million. Tenneco is expected to pay its \$3.04 dividend com-

Half Price: Henschel/Saba Press



J.I. Case Chief Executive James Ashford

Striving for such a quality product that customers won't flinch when he raises prices.

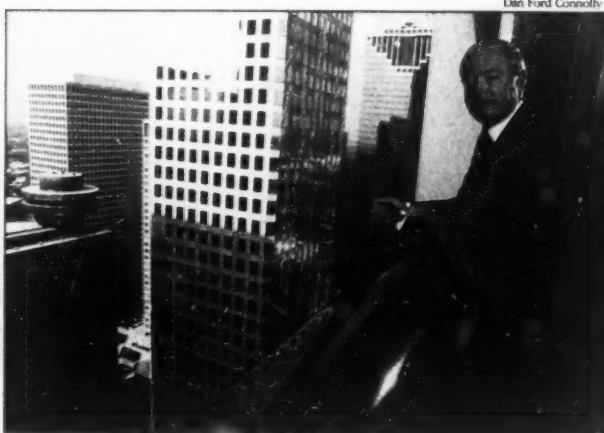
pletely out of profits for the first time since 1984, and have at least \$1 to spare. The stock market is warming toward Tenneco, sending its stock to the \$61-a-share level, 15 times projected earnings. But even that looks reasonable. Tractor sales are still only a third of their 1979 level, so there is plenty of room for Case to grow.

Ketelsen is the first to admit that he misgauged the severity of the farm recession. Tractor sales dropped 60% before the International Harvester deal. They then tumbled a further 40%. With the benefit of hindsight, Ketelsen says he would not have bought Harvester. "I wouldn't have had the guts," he says.

Ironically, the Harvester purchase is the key to why Case is doing so beautifully today. Ketelsen bought International Harvester's assets cheap. He says he recouped much of the \$475 million purchase price just from the value of Harvester machine tools that he moved from shuttered plants to Case facilities worldwide. And Harvester gave Case the sales volume and economies of scale needed to absorb the costs of modernizing plants and developing new products.

Just as important, Case plugged into Harvester's broader product line and superior dealer network. Case changed the color of its tractors from white to Harvester red, and gained Harvester's legion of loyal customers, who now took their tractors to the Case-owned dealerships for service and the best trade-in. Spare parts sales jumped by \$500 million a year.

Most important of all, the deal made Case a strong runner-up in the farm equipment oligopoly. With Deere, it now controls three-fourths of the market in big two-wheel-drive tractors and combines. Ford Motor Co.'s Ford New Holland unit, already a major factor in small tractors and mammoth four-wheel-drive vehicles, could threaten this cozy ar-



*Tenneco Chief Executive J.L. Ketelsen
His abiding affection for tractors has begun to pay off.*

rangement. But Ford lacks the dealer network to sell a lot of big two-wheelers in the Midwest. The Deere-Case dominance especially threatens low-volume competitors Massey-Ferguson (part of Canada-based Varity Corp.), Deutz-Allis (formerly Allis-Chalmers, and now owned by West Germany's Kloeckner-Humboldt-Deutz), as well as White-New Idea (part of Chicago-based Allied Products). All are either fading or struggling.

put a more efficient engine in the combines. Total annual savings: \$120 million. Aiming for another \$400 million a year in savings by the end of 1990, Ashford is now eliminating 5,500 of Case's 8,000 suppliers, standardizing parts and working to get better control over dealer inventories. To show he is serious about quality, Ashford shut down the company's tractor plant in Racine for four days until engineers redesigned a faulty brake piston.

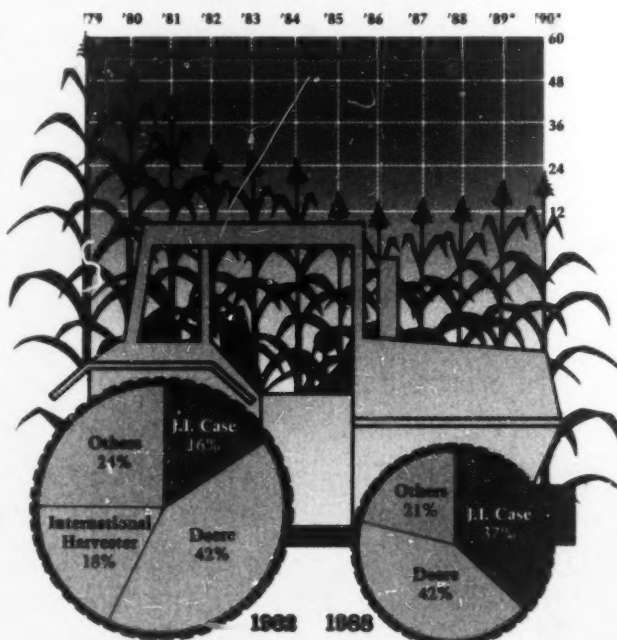
Ashford's objective is to produce such a quality product that customers and dealers won't flinch when he raises prices on new models or refuses to sell his machines for less than the comparable John Deere models. There is already evidence that Case's quality is improving. The two-year-old Magnum tractor, its best-seller, features a more fuel-efficient engine, a Deere-style power shift and a five-year warranty, an industry innovation.

Ending six consecutive years of losses, Case is expected to make \$200 million or so in operating profits this year. Agreeing that this is still a meager 6% return on Tenneco's investment, Ketelsen says he expects Case to earn twice that amount in two years.

Given the man's proven determination, and Case's markedly improved environment, it will be surprising if Case doesn't reach—or exceed—his goal. ■

Tenneco's harvest

Though U.S. sales of big tractors have not recovered to the levels of a decade ago, Tenneco's purchase of International Harvester's tractor line and the decline of smaller rivals have increased its share of the business.



* Estimates. North American tractor market
Sources: Farm and Industrial Equipment Institute; Starks Off-Highway Ledger
Andrew Chiswick

The funnies business is in turmoil these days as comic strip artists battle to recapture the rights to their work.

Free Peanuts! Free Beetle Bailey!

By Eric Schmeckler

THINGS ARE NOT at all fun and games in the comic strip business these days. War is more like it, a war between the comic strip artists and the newspaper syndicates that sell those comics—not to mention editorial cartoons, opinion and service columns, horoscopes and crossword puzzles—to the nation's daily newspapers. The artists, in fact, are successfully battling for creative and financial control of their work, just as film and music stars have done over the past couple of decades. And their victories are upsetting the cozy arrangement that's prevailed since William Randolph Hearst perfected the syndicate business three-quarters of a century ago.

The traditional relationship of syndicates to artists is best described as medieval. Young artists eager to be syndicated have generally signed notoriously one-sided contracts. A standard clause, for instance, gave the syndicate all rights to the strip and characters, with renewal at the syndicate's option—meaning the artist was locked up for life. If the artist got too obstreperous, the syndicate could simply get someone else to draw the strip. All revenues were split more or less in half between the artist and the syndicate, after expenses were skimmed off the top.

So, for example, Charles Schulz does not own the copyright to *Peanuts*, the world's leading strip. That is the property of United Media, part of publicly held

E.W. Scripps Co. (Admittedly, with Schulz this is more a matter of principle than of profits, since *Peanuts* earns him some \$30 million a year.) "Your characters are hostages," notes Mell Lazarus, creator of the *Momma* and *Miss Peach* strips.

Indentured servitude? Consider the plight of Tom Batiuk, creator of the long-running, moderately successful strip *Funky Winkerbean*, now owned by King Features. "I've been trying to renegotiate my contract for 2½ years, and I'm not making any headway,"

Batiuk complains. "My syndicate's position is that I don't have any rights."

But nowadays many top artists clearly have their former masters on the defensive. Per-

haps the watershed battle was last year's cave-in by King Features to *Family Circus* creator Bil Keane. When Keane renewed his contract in 1978, the syndicate insisted on bettering its take and threatened to replace him with another artist. But when it came time to renew last year, Keane threatened to take the dispute public and was prepared to sue; King gave in, handing Keane the copyrights. Estimated value: more than \$10 million, since Keane's wife and son Jeff (who are also the basis for characters in the strip) are being groomed to take over the cartoon someday.

The big syndicates, in any case, have been declining for decades—victims of stagnating newspaper readership, fewer dailies and more homegrown feature material. The syndicates responded by mining the gold in beloved characters like Snoopy, Garfield and Popeye, who are adapted and repackaged for animated TV shows, movies and books, and licensed to manufacturers of just about everything. Says one former syndicate executive, "Without licensing, this industry would have collapsed long ago."

That said, core sales to newspapers (leaving aside licensing, etc.) are probably \$100 million at most. Comic strips are said to account for 75% of that. But no one knows for sure, because syndicates are legendarily secretive about revenues and even their client counts. It's not even clear whether Scripps' United or Hearst Corp.'s King Features is number one, although United, with \$140 million in revenues (this time, licensing included), appears to have pulled ahead (see table, page 162).

King was long regarded as the industry leader, but many now think it's a dinosaur. Its roster resembles a comics museum, with antiques such as *Bringing Up Father* (remember Maggie and Jiggs?), *Popeye* and *Apartment 3-G* dozing alongside aging powerhouses *Blondie*, *Dennis the Menace* and *Wizard of Id*. Although it does well overseas, Hearst acknowledged King's overall decline when it shuffled the



Mell Lazarus, father of *Momma*
"Your characters are hostages."



Opus ©1989 Washington Post Co. Blondie and Dagwood ©1989 King Features Syndicate, Inc. Momma ©1989 Creators Syndicate, Inc.



division earlier this year, putting two extra layers of management between King President Joseph D'Angelo and Hearst's head

honchos.

"This is essentially a mature business," admits United Media President Robert Roy Metz, who nonetheless maintains that his sales and profits are growing. With its two 800-pound gorillas, *Peanuts* and *Garfield*, United has raised licensing to an art form—pop art, that is. Licensing brought in \$69 million last year, roughly three times sales to newspapers, and has made Schulz and *Garfield* top cat Jim Davis perennials on *FORBES'* tally of top-earning entertainers.

United, for one, still assigns itself ownership of a strip forever in its standard contract. Metz' response to artists' demands for control: "It's not important who owns the rights. What matters is what you do with them." But for an increasing number of artists these days, what their syndicates are doing isn't good enough.

Consider Universal Press Syndicate, the hottest outfit of the 1980s. It was founded in 1970 and grew to prominence with Garry Trudeau's *Doonesbury*. Universal boasts a dazzling array of contemporary strips (*Calvin and Hobbes*, *Cathy*, *The Far Side*, *Doonesbury*), plus two of the four superstar syndicated columnists, *Dear Abby* and *Erma Bombeck* (the others are Ann Landers and Art Buchwald). For all its success, though, more than a few of its artists are unhappy, particularly with Universal's licensing effort. Three of them—Cathy Guisewite of *Cathy*, Lynn Johnston of *For Better or For Worse* and Jim Unger of *Herman*—recently hired an attorney from the high-powered show-biz firm, Bloom, DeKorn & Hergott in Los Angeles. "Universal is a brilliant syndicate," says



Cartoon tycoons		
Ranking the big syndicates isn't easy because they're zealously private. These estimates include newspaper syndication and related revenues: licensing, TV, movies, publishing and information services.		
Company Parent	Revenues (\$mil)	Leading features
United Media E.W. Scripps	\$140	<i>Peanuts</i> , <i>Garfield</i> , <i>Frank and Ernest</i> , <i>Jack Anderson</i> , <i>Miss Manners</i>
King Features Hearst Corp	120	<i>Blondie</i> , <i>Beetle Bailey</i> , <i>Hagar the Horrible</i> , <i>The Family Circus</i>
Tribune Media Services Tribune Co	40	<i>Shoe</i> , <i>Mother Goose & Grimm</i> , <i>Brenda Starr</i> , <i>Mike Royko</i>
Universal Press Independent	40	<i>Doonesbury</i> , <i>Calvin and Hobbes</i> , <i>The Far Side</i> , <i>Dear Abby</i> , <i>Erma Bombeck</i>
LA Times Syndicate Times Mirror	10	Art Buchwald, Henry Kissinger, Sylvia Porter, Pogo
Creators Syndicate Independent	8	Ann Landers, B.C., Momma

Sources: Industry executives; Editor and Publisher

Guisewite, "but there are licensing companies out there that are more expert at it."

Momma's-boy Mell Lazarus, who doubles as president of the National Cartoonists Society, also questions the syndicates' expertise in merchandising and television. "If it's good, it sells—it has nothing to do with the presence of a syndicate," he says. "I did my own TV specials based on *Miss Peach*." Lazarus owns his characters, including Momma, a toned-down version of his own mother, "except she doesn't believe it's her. She thinks it's my Aunt Helen."



Sharon Valencia



Mort Walker, creator of *Beetle Bailey*
The syndicate owned the rights to his name.

Lazarus last year joined industry upstart Creators Syndicate, which was founded in 1987 and promptly lured several big names by offering complete control and, reportedly, bigger percentages. Forty percent owned by Britain's Robert Maxwell, Creators' roster includes Ann Landers, B.C., drawn by Johnny Hart, and editorial cartoonist Herblock. "In my view, the talent pays our salaries, not the other way around," says Creators founder Richard Newcombe.

Another top cartoonist who recaptured his rights was *Bloom County's* Berke Breathed. The story goes that Breathed won back his characters in the spring and then sandbagged his syndicate, Washington Post Writers Group, by retiring the strip; apparently he didn't want them hiring someone else to draw his strip's stars, *Opus* the philosophical penguin and *Bill the Cat*.

Artists are even fighting to control their strips from beyond the grave, since syndicates have frequently hired others to continue a strip after the creator's death. Charles Schulz fought hard years ago to win a guarantee from United that the *Peanuts* strip will expire when he does, although Bob Metz notes that Snoopy will still be top dog in the licensing pantheon.

"It's a wonderful annuity for the children," says Mort Walker, who is dickering with King Features over the rights to the *Beetle Bailey* and *Hi and Lois* strips. Walker's family business grosses around \$2.5 million a year for King and employs six people.

Walker knows the value of rights: He started a new strip several years ago for United and had to use a different byline, because King insisted it owned the rights to Walker's own name. ■



changes in critical opinion. But don't look for what Carey calls the "stuffy and unreadable" writing of hard-core academics in Cliffs. He prefers hiring high school teachers, because they know how to explain a text in comfortable terms. And while Cliff himself has never penned a note, his daughter Linda, a former librarian, has done revisions on two Shakespeare titles.

Over the years, more than a dozen competitors have tried to break in on Cliffs Notes' profitable little world, with no success. Cliffs' Spellman says the company has 80% of the market for literary study guides; the claim is not disputed by Pamela Byers, publisher of number-two-ranked Monarch Notes, owned by Paramount Communications' Simon & Schuster division.

How does Cliffs stay on top? For one thing, the company spent \$1 million last year on advertising—mostly in magazines like *Scholastic* and *Seventeen*, as well as co-op ads with bookstores in college papers—while rivals did relatively little consumer advertising. Besides, notes Spellman, "\$11 million is a pretty big figure to me. But to any one of the major publishers, \$11 million is something they can live with or live without." But Cliffs Notes doesn't win every battle. In an effort to protect its trademark cover, the company in July sued the Bantam Doubleday Dell Publishing Group over a Cliffs Notes parody, written by the editors of New York's *Spy* magazine. Bantam won.

While he watches his business carefully, Hillegass does not cut corners when it comes to his employees. Cliffs Notes' generous profit sharing plan, for example, amounts to substantially more than the 10% of pretax profits that Hillegass gives to local charities every year. "I have certain theories of how you treat your people that I'd like to see maintained."

Cliffs Notes has given Hillegass a certain measure of local celebrity. When the University of Nebraska Cornhuskers play at home, he and second wife Mary sit in the 74,000-seat stadium's press box. Hillegass says that offers to buy him out have been coming in almost from the beginning; last year alone he received 20 offers, most of them "ridiculously high." Meaning? "Oh, 35 times earnings." That multiple would value Cliffs Notes at around \$70 million. But Hillegass says he has never considered selling out. Says he with more than a trace of midwestern chauvinism: "I'd just as soon see the Notes stay in Nebraska." ■

The whole restaurant trade—from the white tablecloth crowd all the way on down to the burger joints—is suffering a severe attack of profit squeeze.

Couch potatoes don't dine out

By Richard Phalon

IT IS THE PEAK of the lunch hour at Aurora, a chic Manhattan restaurant owned by famed restaurateur Joseph Baum. In his 45 years in the trade, Baum has created (or recreated) such gastronomic landmarks as the Four Seasons, Windows on the World and, most recently, the Rainbow Room, atop Rockefeller Center. Today he scans the waiters gliding with-in easy beck of the celebrities in the house. He assays the rising hum of conversation, the muted clatter of china. He tells a guest softly, "We're doing all right, but these are not good days for the industry."

Baum considers himself lucky that evening volume at Aurora is down only about 10% from last year. It could be worse. Scores of fancy restaurants from Boston to Los Angeles are going out of business. The spectacular collapse of such heavily hyped names as Joanna and Il Palazzo in New York echoes in the wariness of survivors everywhere. Says Santa Monica's Michael McCarty, owner of Michael's, one of the Los Angeles area's most expensive restaurants, "The gangbuster days are definitely over."

It would be easy to pin this malaise entirely on factors such as the October 1987 stock market crash or the reduction (to 80%) of the tax deductibility of business entertainment. Easy, but misleading. The fact is that the entire \$147 billion eating place industry—from haute cuisine on down to the corner diner—is in a state of turmoil.

Adjusted for inflation, restaurant revenues are expected to inch up only 2.4% this year, versus 2.8% in 1988 and 4% in 1987. As a matter of fact, if this year's 2.4% projection proves ac-

curate, it will be the weakest showing since 1981. Worse, as the table on page 216 shows, operating margins for several big publicly traded restaurant chains have been squeezed sharply over the past year.

Blame the malaise instead on technology and an aging population. On the technology front, the biggest threats to restaurants have been microwave ovens and VCRs. As for demographics, call it the flowering of the couch potato. Baby boomers are now often saddled with kids of their own. They find eating at home more economical and more convenient, what with Johnny's football practice running late and Susie's piano lesson on Tuesdays at 6:30 p.m. Baldly put, many millions of Americans are tired of eating out, or can't work it into their schedules.

Signs of indigestion are everywhere: ● Fast foods slow down: Wendy's and other chains are fighting uphill (see table). Even McDonald's is showing little real growth. The seemingly insatiable appetite for burgers and fries that made Big Mac one of the great success stories exhibits all of the clinical manifestations of a maturing market: chronic price cutting, heavier advertising costs, dwindling sales per dollar of investment, narrowing profit margins. There is still money to be made out of chopped meat, but it no longer cascades in a golden arch to the bottom line.

● Savvy insiders getting out. Tom Monaghan, 52, founder and 97% owner of fast-food success story Domino's Pizza, provoked a storm of questions with the announcement last month that he was "exploring the idea" of selling his \$2.3 billion company. Monaghan allowed as how he wanted more free time to pursue charitable

work. Wall Street parsed this more mundanely: Monaghan wants to get out at the top. Said one analyst: "Domino's has been on a fantastic growth rate that cannot endure."

Others eager to exit include the Rosenthals, majority owners of Jerrico, Inc., a 1,500-unit nationwide seafood chain. They assured reporters there were "no financial troubles" behind their agreement to sell to Castle Harlan and DJS/Inverness for \$24.25 a share, the highest price on the stock since before the 1987 crash. Nonetheless, Jerrico's profit margins have been declining for the last three years.

● A wave of restructuring. Citing a maturing of the industry, Shoney's increased the debt on its balance sheet

to more than \$600 million, using part of the proceeds to pay shareholders a special \$20 dividend. Ordinarily, newly raised funds would have been earmarked for construction of new restaurants, but under its new strategy Shoney's plans to concentrate on improving margins at existing outlets.

There were at least seven major buyout deals last year, including such familiar house flags as Chi-Chi's and Foodmaker, Inc. As restaurant growth slows even further this year, more deals are expected. Michael Mueller, an analyst who follows the restaurant trade for Montgomery Securities, sees Collins Foods (a franchisee of Kentucky Fried Chicken), the Sizzler steak chain and Vicorp (Village Inn,

Bakers Square) as among the restructuring candidates.

The problems affecting the chains also hurt the expensive, privately held restaurants like Joe Baum's Aurora. One of the biggest headaches is customers' resistance to price increases. Until fairly recently, almost every level of the restaurant business could pass along higher costs. The impact was particularly marked in the haunts of the expense account aristocracy, with dinner and a couple of drinks creeping upwards of \$100 a head at places like Manhattan's Four Seasons. As more and more establishments were drawn into this segment of the business, there came the inevitable collision with reality.

Knowledgeable restaurateurs like Baum think this weakness is more than just a cyclical replay of the late 1960s, when the stock market declined and the IRS presided over an earlier crackdown on business entertaining. Baum sees change at work. "There is a difference between expensive and outrageous," he says. "People are much more sophisticated about prices and value. When the value isn't there, they go somewhere else with their money."

Has America reached the saturation point with restaurants? Perhaps so. There are nearly 50% more restaurants now than there were 15 years ago. Sharper competition is compounded by the tendency of all ages to spend more time at home, riveted to the VCR and cosseted by food that makes its way to the table through the microwave.

If the restaurants are losing, who's winning? Among the big winners are purveyors of take-out and take-home victuals, like Larry Shapiro, who (with some part-time help from his 86-year-old father) runs the family-owned Marty's wine and food emporium in the Oak Lawn section of Dallas. At lunchtime, Marty's does a booming business in salads and sandwiches for the office crowd; in the evening, it's spinach-stuffed chicken or beef tenderloin with vegetables for the couch potatoes.

Who are they? "Singles; working couples with no children or young children; and to a certain extent, empty-nesters going to gray whose kids are out of the house," says Shapiro.

Catering to the home trade has enabled Shapiro, 41, to prosper in a generally distressed Texas city where "in the last three years there has been a big exodus of upscale restaurants." Those that remain, continues Shapiro, "are crying," but surviving because they, too, have gone into the



Marty's of Dallas
A booming business in take-home.



A Domino's delivery in Brooklyn
Getting out while the getting is good?

take-home business.

Adaptability is the key. At the lower end of the market, Gene Bicknell's National Pizza Co. has doubled its revenues to more than \$120 million in the last three years because he took a leaf from Domino's book and pushed heavily into home delivery. Mario Sbarro's pizza and pasta cafete-

rias are going great guns because Sbarro is exploiting a niche in shopping malls where the demographics tend to be weighted heavily toward older people.

T.G.I. Friday's is trying to broaden the appeal of what used to be mainly a singles environment. Now the chain offers Shirley Temple drinks and

peanut butter and jelly sandwiches along with the Pinot Chardonnay in a bid for the family trade—or at least that part of it that still dines out.

In short, the restaurant business is a lot tougher these days. More than ever, only those with a shrewd sense of the market and eye for detail will make it. ■

If you can't stand the heat . . .

Though the pressure on profit margins is everywhere, the visible impact so far is mixed. McDonald's is only just beginning to bend with the trend to discount coupons. Wendy's, on the other hand, has found that its

real beef is careful expansion while pruning unprofitable outlets. The new selectivity has pushed it to beyond break-even. A change in management style has also helped to fatten T.G.I. Friday's profit ratio.

Establishment	Sales (\$mil)	Net income (\$mil)	EPS	Recent price	P/E	—Net income as % of sales—		
						1986	1988	1989/period
Hamburgers								
McDonald's	\$5,521	\$646	\$1.72	30¼	18	11.6%	11.7%	11.5%/6 mo
Wendy's International	1,046	28.5	0.30	5¼	18	NA	2.7	3.2/6 mo
Steak & Seafood								
Collins Foods International	567	25.2	1.27	21¼	17	1.2	4.4	6.0/3 mo
Jerrico	634	17.8	0.91	23¾	26	4.8	2.8	3.7/9 mo
Ryan's Family Steak Houses	193	19.3	0.37	8¼	22	10.4	10.0	8.8/6 mo
Sizzler Rests International	291	18.6	1.09	22¾	21	6.4	6.4	7.6/3 mo
Pizza & Pasta								
Sbarro	117	10.8	0.81	21¼	26	8.4	9.2	7.5/6 mo
Diversified								
Piccadilly Cafeterias	276	11.3	1.20	15¼	13	6.0	4.5	4.1/12 mo
Shoney's	770	44.9	1.22	11¼	10	6.7	5.8	2.0/40 wks
T.G.I. Friday's	402	12.4	0.70	14¼	20	0.4	3.1	3.5/6 mo

Computers/ Communications

AT&T spent a fortune paying people to try its Unix software. But now that Unix is a winner, AT&T is looking to cash in.

Payday for Johnny Appleseed

By Norm Alster

FOR YEARS, AT&T was the Johnny Appleseed of computers, liberally seeding the industry with its Unix operating software.

This munificence has done wonders for Unix, which is currently the fastest-growing operating system in the computer industry. An operating system is a piece of software that lets a computer keep track of all its components, from printers and display screens to an application program stored in memory, such as Flight Simulator or Lotus 1-2-3.

Unix popularized the idea of so-called open systems, which enable a computer user to take software written for one brand of machine and run it on another. Unix currently runs on 1.2 million computers made by everyone from Apple to Zenith. Computers that run Unix-based software now account for 9% of worldwide computer sales of \$121 billion, according to International Data Corp. And Unix is gobbling up market share (see chart). International Data projects that by 1993 Unix will be the software core for 19% of a worldwide systems market totaling \$185 billion.

But the joke is on AT&T. Unix is ubiquitous, but until now the software developed at Bell Laboratories has actually been a moneyloser. Current royalty revenues from Unix are only around \$50 million—not nearly enough to cover the overhead required to keep coming out with new and improved versions of the operating system.

AT&T's lingua franca

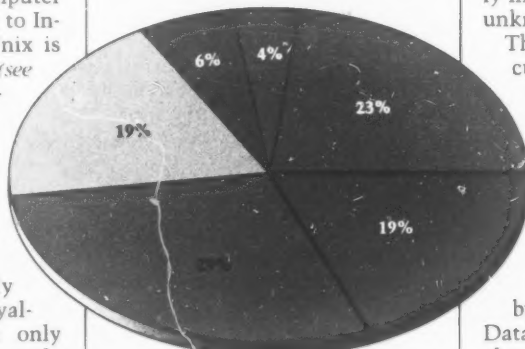
Unix is expanding its share of computer operating systems.

Worldwide computer sales
by operating system

■ Unix
■ DOS & OS/2
■ IBM mainframe
■ DEC VMS
■ IBM midrange
■ Others



1988 \$121 billion



1993* \$185 billion

* Estimates. Source: International Data Corp.

The last thing AT&T's Data Systems Group needs is to lose money on its most famous product. Since it was formed in 1984, at divestiture, the group has lost a stunning \$3 billion. Ironically, the Data Systems Group has managed to win a rather unimpressive chunk of the Unix-based computer market. AT&T's sales of Unix-based systems totaled \$680 million in 1988. To put that in perspective, Sun Microsystems, founded in 1982, sold over \$1 billion worth of Unix machines last year.

In a belated move, AT&T spun Unix out into a new division at the beginning of this year. The group, which is called, appropriately enough, the Unix Software Operation, is based in Morristown, N.J. The president of the Unix operation is Lawrence Dooling, who was formerly marketing vice president of Data Systems Group. By the end of the year Dooling expects to have 400 software engineers working on new releases of Unix and related software products such as C++, the high-level language of object-oriented programming.

Dooling's mandate is to make money in a business that had been run like a charity. AT&T had spent "hundreds of millions of dollars" to develop the software, says Dooling, but "Unix was not seen as a product on which to earn a return." Longer term, of course, AT&T could also sell the Unix business altogether, although the company now says this is not imminent.

There was a logic to AT&T's largesse: keep Unix cheap to encourage its wide acceptance. AT&T had been using the classic marketing gimmick of low introductory pricing to get customers to try its product. It had worked before. AT&T, remember, is the company that got a small outfit named Sony pointed in the right direction when it virtually gave its newly invented transistor to the Japanese unknown to play with in the Fifties.

The Unix royalty fees were minuscule next to those of other operating systems. AT&T collects when its customer—a computer company—sells a Unix system. AT&T collects anywhere from \$60 for a small computer system to a maximum fee of \$170. That's a pittance compared with software licensing fees routinely charged by computer outfits. For example, Data General marks up Unix and charges its customers as much as \$10,000 for a Unix license. That more than covers Data General's engineering costs required to adapt Unix to its own machines. Customers who opt

for an alternative operating system developed entirely by Data General pay even more.

The price for Unix will go up soon. Under the royalty schedules on the brand-new version of Unix—called System V Release 4—many licensees will be paying up to a maximum of \$10,000 instead of hundreds of dollars on each system sold. For most computer companies that license Unix and then package it to customers along with a complete computer system, the new schedule stipulates fees of 1% of systems sales price. Thus, when Unisys sells a \$100,000 system it would now pay AT&T \$1,000 instead of \$170.

What happens when Johnny Appleseed suddenly asks for a share of the harvest? Not surprisingly, AT&T's Unix licensees began howling. "Is it an area of potential concern for us?" asks Michael Munro, director of strategic planning for the Unix Systems group at Unisys Corp. "The answer is yes." Unix-using hardware is a business that was worth \$800 million last year to Unisys, and the bulk of its sales are of systems that cost somewhere between \$20,000 and \$120,000. Hence, Unisys' costs—and likely its prices—will rise across the board.

To soften the blow, AT&T threw in some freebies with the higher fees. These are things like software exten-

sions that allow easier networking among Unix, OS/2 and DOS machines.

AT&T would have hiked the rates even more, but it didn't want to risk losing customers to a new breed of Unix. A rival Unix update is already under development by the Open Software Foundation, a group of Unix licensees that includes IBM, Digital Equipment and Hewlett-Packard. (Their starting point is an early version of AT&T's creation.) AT&T may have inadvertently inspired its own competition when it agreed in 1987 to develop new versions of Unix in partnership with Sun Microsystems, the workstation maker. Other Unix licensees felt the move gave Sun a com-

petitive advantage in designing computers to run new versions of Unix. The first release of the Open Software version of Unix is due out the second half of 1990.

Another danger is that licensees will stick with earlier versions of Unix and ignore the new, more expensive version. Not all computer users will be able to take advantage of the highly sophisticated features of Release 4. That's important because Unix has made only modest gains among commercial users. Its stronghold is among engineers. Price hikes could discourage commercial customers and retard development of appli-

cations programs for Release 4, worries Frank Kenney, a software executive at Data General. The broad availability of applications is what helped attract companies like Data General to Unix in the first place.

But these risks are small. The fact is, AT&T was giving away something of value for too long. Computer users are crying out for alternatives to software that locks them into a single hardware maker, and Unix is the most logical alternative right now. Even with the price hikes, Unix is still a good deal. "Yes," admits NCR's Unix executive, Van Aggelakos, "it is a very good deal."

And that is good news for AT&T.



AT&T's Laurence Dooling
The time for freebies is over.

It's not enough to have a personal computer. Now your computer needs a computer. So does your printer and color terminal.

How smart is your disk drive?

By Kathleen K. Wiegner

FOR MOST OF his working years, Michael Hackworth, 48, had been a big semiconductor company man—first with Motorola, then with Fairchild Semiconductor and Signetics, a subsidiary of N.V. Philips. The last thing the world needed, Hackworth be-

lieved, was another tiny semiconductor startup. Yet in the last six years some 20 tiny chip companies have gone public. And one of them was Cirrus Logic (fiscal 1989 sales, \$36.9 million) of Milpitas, Calif., cofounded in 1984 by Hackworth.

Cirrus makes specialized logic chips—the kind that run a computer

system, making decisions and performing control and computational functions. Only instead of competing directly with companies like Intel and Motorola with general-purpose microprocessors, Hackworth found a profitable niche making specialized computer chips for peripherals like disk drives and printers.

The trend in computing today is toward smaller, faster, smarter desktop computers. That puts a greater burden than ever on microprocessors that sit at the heart of these small computers. Increasingly, that microprocessor needs to delegate housekeeping duties in order to concentrate on what it does best—namely, manipulating data and arithmetic calculations. Too often in early 8-bit personal computers, the microprocessor was spending more time locating the data stored on a disk drive than it did doing real calculations, thus squandering resources.

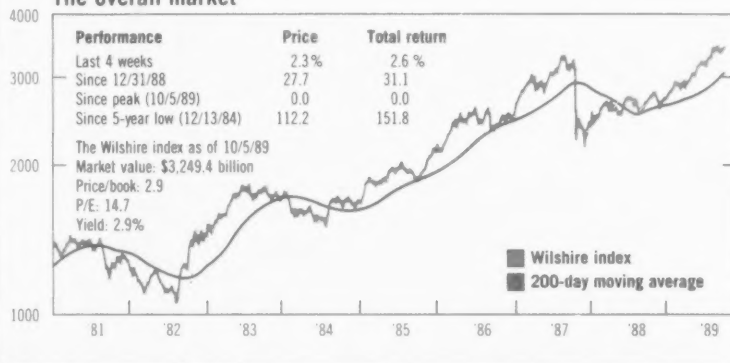
That created an opening for people like Hackworth. Cirrus specializes in

The Forbes Wall Street Review

Edited by Eric S. Hardy

WALL STREET ISN'T BLIND, it's just ignoring news about a soft economy. Stocks closed the recent two-week period at record levels. Takeover activity, such as Donald Trump's bid for AMR, has provided much of the fuel. And with optimism that the Federal Reserve is about to cut the discount rate, the market seems confident that the economy is not headed toward a major recession. Nevertheless, Monte Gordon, director of market research for Dreyfus, is recommending defensive issues such as foods and utilities, which he thinks will outperform cyclical over the next few months.

The overall market¹



Closeup on the Market

Index or investment	Price	2-week change	Index or investment	Price or rate	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,497.36	3.2%	Europe, Australia, New Zealand and Far East² (EAFE) a dollar denominated capitalization weighted index	985.40	2.3%
Wilshire index 6,000 stocks, equal weighted	23.68	3.6	Institutional³ Approximately 200 stocks with high institutional ownership	125.45	2.9
Dow Jones industrials 30 stocks: divisor-adjusted price average	2,773.56	3.5	Individual³ Approximately 200 stocks with low institutional ownership	114.81	1.9
S&P 500 Capitalization weighted—cross-section, major stocks	356.97	3.3	Technology Hambrecht & Quist index	269.17	1.6
NYSE Capitalization weighted, all listed common stocks	198.05	3.1	Gold⁴ (Composite quote of 6 major dealers)	\$363.50	unchanged
Amex Capitalization weighted total return: stocks, warrants	394.43	3.8	Yen⁴ (per \$U.S.)	142.75	-2.0
Nasdaq Capitalization weighted, all issues except warrants	480.66	2.9	Commodity index⁴ (CRB futures index, 1967 = 100)	224.83	-0.8
Amex international market index Capitalization weighted, 50 largest ADRs	325.17	2.2	Oil⁴ (W Texas Intermediate)	\$19.95	1.7
			T Bills⁴ (90 days)	7.55%	-25 basis points ⁵
			Broker loan rate⁴	10.00%	unchanged

The Best Performing Stocks

Company	Price	2-week change	P/E	Reason
Noxell	33%	59%	26	Stock rising in tandem with Procter & Gamble, who will acquire company in stock-swap
Esselte Business Systems	43	29	15	Parent company Esselte AB of Sweden, intends to offer \$40 for all shares outstanding
Columbia Pictures	26%	29	NM	Agrees to Sony's \$27 per-share cash offer
Mylan Labs	18%	24	42	Drug to treat Parkinson's disease is well received in U.S. market
Tejon Ranch	54	22	NM	Stock rises in sympathy with competitor Newhall Land & Farming

The Worst Performing Stocks

Company	Price	2-week change	P/E	Reason
Harcourt Brace Jovanovich	9%	-38%	NA	Agrees to sell theme parks for price much lower than expected
Wang Laboratories	4%	-16	NA	Continuing investor pessimism about company's financial condition
Quantum Chemical	35%	-14	3	Agrees to purchase Petrolane with First Boston. Possible earnings dilution
Amdahl	13%	-14	7	Speculation that IBM may introduce competitive mainframe computer
Cummins Engine	56%	-10	NA	Announces third quarter will show deficit

Note: All data for periods ending 10/5/89. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above all have market capitalizations of \$500 million or more. ¹Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. ²Morgan Stanley Capital International Perspective. ³A. Arbel, Cornell University, using Ford Database from Ford Investor Services. ⁴Knight-Ridder Financial Information. ⁵A basis point is equal to one-hundredth of a percentage point. NA, Not applicable. NM, Not meaningful.

New Issues Review

Edited by Charles M. Bartlett Jr.

The biggest¹

Company/business	Exchange	Offer date	Offer price	Recent price	Offering (\$mil)	Lead underwriter	Performance to date absolute	rel to mkt ²
Cable & Wireless/telecomm svcs	N	9/26/89	26¾	27 ½	\$281	Goldman, Sachs	4%	2%
Smith Corona/typewriters	N	7/28/89	21	19 ¾	252	Shearson Lehman	-8	-10
Giddings & Lewis/machine tools	O	7/20/89	14	16 ¾	119	First Boston	21	15
Air & Water Tech/environmental svcs	A	8/10/89	17	18 ½	68	Kidder Peabody	7	6
Grace Energy/oilfield svcs	N	8/17/89	22	24	65	Merrill Lynch	10	8
Central Newspapers/publishing	N	9/20/89	21	23 ½	63	Goldman, Sachs	10	9
Eagle Food Centers/supermarkets	O	7/27/89	20	17 ¾	60	Goldman, Sachs	-11	-13
Chart House Enterprises/restaurants	N	8/29/89	13½	13 ¾	41	First Boston	1	1
Lechters/retail housewares	O	7/20/89	20½	22 ¼	37	Goldman, Sachs	9	18
Ogden Projects/waste-to-energy svcs	N	8/2/89	14	25 ¼	35	Merrill Lynch	80	78

Performance Update

SMOKESTACK IPOs MAKE a comeback. It wasn't computer software, biotechnology or solar energy that attracted the most capital in the new issues market in the past year. It was chemicals and steel. Over the last 12 months \$1.1 billion and \$500 million, respectively, were invested in these two industries. Goldman, Sachs was a lead underwriter on each group's largest IPO: the Lyondell Petrochemical offering for \$960 million, and the British Steel American Depositary Shares (ADS) offering at \$420 million.

The biggest individual underwriting of the September quarter was also a Goldman, Sachs deal. The U.S.-traded shares of Cable & Wireless Plc., a U.K.-based telecommunications service firm, raised \$281 million. The second-largest issue (\$252 million) was Smith Corona, famous for its typewriters and word processors. Smith Corona's parent, SCM, was acquired by Hanson Trust Plc. in 1986. The new offering reduces Hanson's control of Smith Corona to 51.3%.

Ogden Projects, which makes waste-to-energy equipment, was the best-performing new IPO in the third quarter, benefiting from Wall Street's current enchantment with environmental stocks. Since Merrill Lynch took Ogden public Aug. 2, raising \$35 million, the stock has gained 80%. (Securities Data Co., a Newark, N.J. financial services firm, supplied data for this report.)

The best¹

Company/business	Offer price	Offering (\$mil)	Lead underwriter	Performance to date absolute	rel to mkt ²
Ogden Projects/waste-to-energy	14	\$35	Merrill Lynch	80%	78%
New Image Inds/imaging prods	6½	7	HJ Meyers	71	72
Newbridge Networks/comm sys	10½	26	Smith Barney	48	45
Westcott Comm/tv programming	10	15	Robertson, Stephens	38	28
Applebee's Intl/restaurants	11½	23	Piper, Jaffray	31	29

The worst¹

Company/business	Offer price	Offering (\$mil)	Lead underwriter	Performance to date absolute	rel to mkt ²
Marine Drilling/drilling svcs	8½	\$30	Dillon, Read	-18%	-19%
Bizmart/office supply stores	10	34	Alex Brown & Sons	-13	-13
Eagle Food Centers/supermarkets	20	60	Goldman, Sachs	-11	-13
Vencor/fitted cloth diapers	8½	15	JC Bradford	-10	-11
Electronic Arts/computer software	8	17	Alex Brown & Sons	-9	-10

The most active investment banker³

Underwriter	Total offerings	Total raised (\$mil)
Goldman, Sachs	14	\$2,660
First Boston	5	364
Merrill Lynch	8	343
Shearson Lehman	3	277
Alex Brown & Sons	11	197

Industries going public³

Industry	Total offerings	Total raised (\$mil)
Chemicals	3	\$1,123
Steel	4	513
Telecommunications	2	386
Typewriters	1	252
Bank holding co	2	251

Notes: Initial public offerings with offer date of 7/1/89 to 9/30/89, offering price of \$2.50 or more and offering value of \$5 million or more. ¹ Last quarter. ² The percentage by which the ending value of \$100 invested in the stock exceeds the ending value of \$100 invested in the market. ³ Latest 12 months.

Source: Securities Data Co.

Housing stocks anticipate boom years, which could make them a good buy now.

HOW, AND WHY, TO PLAY A HOUSING REBOUND

By Charles E. Babin



Last month (*FORBES*, Sept. 18) I looked at how the Reagan-era tax cuts adversely affected housing relative to other industries by chipping away at the tax benefits associated with home ownership. The analysis demonstrated how the average homeowner's increased housing costs more than offset the additional aftertax income generated by the 1986 tax bill. From this perspective it's not surprising that residential investment has been shrinking since 1987, despite a robust economy, and that developers have been suffering.

Now it's time to look ahead. Ultimately, in a market economy like ours, the housing sector will adjust to reflect today's tax realities. After all, shelter is still a necessity of life and continues to enjoy a significant, albeit diminished, tax advantage. Early indications point to 1991 as the rebound year.

Already there are scattered signs of transition. Interest rates have been falling and, according to the National Association of Realtors, the median price for

existing homes dropped \$1,800 in August while median income rose: Housing is becoming more affordable, in aftertax dollars.

When the giant home-building industry does awake, the rise could be spectacular. In 1983, the last bust/boom housing cycle, residential investment ballooned nearly 40%. Stock prices of the housing companies (as reflected by a portfolio of five Standard & Poor's housing-related industry groups) anticipated the turnaround and appreciated by nearly 60% in 1982, even though the economy was mired in recession. This performance wasn't a fluke. As shown in the table, there have been seven episodes when housing recovered from periods of negative growth since 1950. With the exception of 1958—when residential investment eked out a small gain—housing stocks anticipated the rebound years.

While housing stocks have per-

formed well during this year's bull market, another healthy increase is possible given the industry's recovery prospects. The challenge is to identify a means for assessing the relative appreciation prospects for housing stocks. Interest rates provide a solution.

Few could dispute that there is a linkage between interest rates and stocks, especially housing stocks. For the purpose of this exercise, I've chosen to track interest rate changes using Treasury bills. T bill pricing is unambiguous, readily available and provides an accurate barometer of interest rate movements. And there's a "futures" market for T bills, from which an implicit forecast of interest rates—and in turn the prospects for housing stocks—may be deduced. Indeed, the T bill futures market's 14-year forecasting record is impressive.

Today's futures market is saying loud and clear that the direction of interest rates into 1990 is down, perhaps by as much as two-thirds of a point from this year's likely T bill average of 8.15%. Based on the historical linkage between interest rate movements and housing stock prices, the S&P housing groups have a better than 50% chance of beating the S&P Composite and more than a 60% probability of returning more than Treasury bills over the next year or so.

If you want to play a housing rebound, compiling a sensible portfolio is easily done. S&P's weighting system is such that a handful of stocks account for the lion's share of the housing-related indexes used here. So a portfolio of these issues ought to at least mimic the expected performances of the overall housing group. These companies (all NYSE) and their Oct. 6 prices are: Armstrong World Industries (45¼), Centex (37½), Fleetwood Enterprises (26½), Georgia-Pacific (60¼), International Paper (56¼), Kaufman & Broad (21¼), Masco (27¼), Maytag (22¼), Owens-Corning Fiberglas (34¼) and Weyerhaeuser (31¼).

Certainly, any number of events beyond interest rate fluctuations will affect housing stocks. But based on empirical relationships, housing stocks are likely to discount the recovery as market forces work toward a surge in residential investment. ■

Anticipatory markets

Housing stocks historically have led the way out of recessions.

Recovery year	Residential investment	—Prior-year investment return—		
		Treasury bills	S&P composite	housing stocks
1953	2.8%	1.7%	13.4	15.5%
1958	0.2	3.2	-13.8	-12.9
1962	7.4	2.4	4.0	12.4
1968	15.6	4.3	19.0	92.5
1971	29.1	6.4	0.2	6.7
1976	23.2	5.8	1.5	53.1
1983	39.7	10.6	15.5	58.9
Average return		4.9	12.8	32.3

Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm, in Boston.